STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE FINANCE, REVENUE, AND BONDING COMMITTEE
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Testimony Supporting Senate Bill No. 11

AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR'S BUDGET

Senator Fonfara, Representative Scanlon, Senator Martin, and Representative Cheeseman, and distinguished members of the Finance, Revenue, and Bonding Committee, thank you for the opportunity to offer testimony on Senate Bill No. 11, An Act Concerning Revenue Items to Implement the Governor's Budget.

This bill contains the major revenue elements of the Governor's proposed FY 2023 budget adjustments. General Fund revenue would decrease $643.1 million in FY 2022 and decrease by $334.6 million in FY 2023 prior to accounting for the state's revenue cap. There are no changes recommended in FY 2022 and FY 2023 for Special Transportation Fund revenue.

Connecticut's fiscal position at the end of FY 2021 was much better than had been envisioned when the COVID-19 pandemic initially struck our state and nation. Connecticut's General Fund has closed in surplus for the third consecutive fiscal year, the state has the most robust Budget Reserve Fund in its history, and we have been able to reduce unfunded liabilities by funding more than $1.6 billion in supplemental pension payments. This allows the Governor to present this budget proposal with a large projected surplus, but there are challenges in the biennium ahead as the gap between the growth in our fixed costs versus revenue begins to narrow. The federal government has also imposed numerous rules on the use of American Rescue Plan Act (ARPA) dollars, particularly regarding tax cuts. At this time, it would appear these rules would permit Connecticut to cut taxes by $250 million to $300 million in FY 2023, with less headroom in future years because of previously enacted tax cuts. Therefore, this proposal balances the importance of United States Treasury guidance, the state moving toward structural balance, positioning our state for growth, and making Connecticut more affordable.

This budget proposal includes measures to expand eligibility for the property tax credit and increase the benefit to $300. Under current state law, the property tax credit is limited to those over the age of 65, or those with dependents. Expanding the credit to all adults within the current income limits would benefit an additional 500,000 persons. The increase of the property tax credit from $200 to

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$300 would impact an estimated 800,000 persons. The impact of both measures would decrease General Fund revenues by $53.0 million and $70.0 million for the expanded eligibility and the benefit increase, respectively.

The Governor's proposal also makes Connecticut an easier place to retire with an accelerated phase-in of exempting pension and annuity income. This provision allows single filers with an adjusted gross income (AGI) of less than $75,000, or joint filers with an AGI of less than $100,000 to exempt 100% of their pension and annuity income from the state income tax, up from the originally scheduled 56%. This proposal would result in a $42.9 million decrease in the General Fund in FY 2023.

Further, this proposal can enhance incentives for mutually beneficial tax credits, such as the student loan tax credit which helps employees reduce their student loan debt and provides employers with a credit for their assistance with those payments. Under this tax credit, businesses that contribute toward an employee's student loan balance can avail themselves of a 50% tax credit up to $2,625 per employee per income year. This tax credit would decrease General Fund revenues by $9.4 million in FY 2023. This is one more way we can work together to keep recent graduates working and living in Connecticut.

The Governor has also proposed to reduce property taxes on motor vehicles which is not included in this bill as it is an appropriations matter (SB 9 & HB 5037). State law currently implements a cap of 45 mills on car taxes levied by municipalities, and the state reimburses municipalities for their lost revenue. The Governor is proposing to reduce this cap to 29 mills which would impact 103 municipalities and more than 1.7 million motor vehicles across the state for an additional cost of $160.4 million. In sum, the tax relief proposals contained in the Governor's budget would total $335.7 million.

There are several other revenue measures contained in the Governor's budget proposal, with the most significant being the elimination of the $809.9 million in Federal Coronavirus State Fiscal Recovery Fund (CSFRF) funds which were programmed as revenue when the FY 2022 – FY 2023 biennial budget was adopted - $559.9 million in FY 2022 and $250 million in FY 2023. The state's improved fiscal outlook affords us the flexibility to eliminate or reduce these one-time revenue sources while freeing up $810 million in federal money for other state uses. However, this still leaves $944.9 million of CSFRF dollars in the FY 2023 budget which is equivalent to 4.2% of General Fund revenue.

Lastly, the Governor is reintroducing last year's captive insurer's initiative to make our state more attractive to this rapidly growing sector in the insurance field. This initiative would allow such firms to address any tax payments owed from a prior period without penalty, thereby encouraging such firms to domicile/re-domicile to Connecticut. The projected impact of this proposal would increase General Fund revenues by $7.5 million in FY 2023.

I respectfully request that the committee support this bill. I would like to again thank the committee for the opportunity to present this testimony, and I am happy to answer any questions you may have.